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Director, Mr. Nicholas Hopkinson

Distinguished Guests

Participants

Ladies and Gentlemen:

I am delighted to have been invited to participate in this Wilton Park Conference and especially to share my own views and perspectives on the *Prospects for Completing Multilateral Trade Negotiations and Economic Partnership Agreements*.

I would wish to deal first with the multilateral trade negotiations which were to be concluded by the end of 2004, but are still on-going. I shall then address the question of the negotiations for economic partnership agreements between the European Union and the countries of the African, Caribbean and Pacific Group (ACP) of states.

The factors that have been frustrating the timely completion of the current Round of WTO multilateral trade negotiations basically involve issues of fundamental national interests. The same issues, which militated against a successful outcome of the Ministerial Meeting held in Cancun, Mexico, in September 2003, and which also threatened to bring to naught the untiring efforts of a number of countries at the Ministerial Meeting in

Hong Kong in December 2005, are still standing in the way of progress in May 2007. I refer to the issues relating to market access, domestic support, and export subsidies in the area of agriculture.

The real concern on the part of many countries, developed and developing alike, is that unless the US and the EU are prepared to make significant concessions in agriculture, and begin to give genuine consideration to the concerns of all developing countries, the successful completion of the Doha Development Round will remain an elusive dream. Already, a number of developing countries are becoming frustrated with the process in which only a small group of countries, namely the US, EU, Brazil, India and Australia, seem to have a voice. The others are left out!

History shows that agriculture, even under the GATT – the predecessor to WTO – has always proved to be a very difficult area to regulate multilaterally. A determining factor is the high political sensitivities of the sector in many developed states and some larger and more advanced developing countries. In fact, it was not until the Uruguay Round which began in late 1986, that the international community agreed to place trade in agriculture under stricter multilateral disciplines. And even then, it was not an easy undertaking. A round that was scheduled to last four years, took almost eight! Agricultural issues were largely responsible for this state of affairs.

The stark reality was that most developed countries for whom agriculture was a politically sensitive subject, were reluctant to liberalise the sector and to reduce the large-scale governmental domestic support and export subsidies by which it was, and continues to be characterized.

I state without fear of contradiction that while the Uruguay Round succeeded in placing trade in agriculture under greater multilateral oversight, there were too many compromises made in the negotiations in this area. The Agreement on Agriculture did little to liberalise trade in agricultural products and improve market access, especially for developing countries. Many export subsidies were allowed to continue and were, in effect, legitimized. Protective tariffs aided and abetted by the so-called “tariffication” process, and governmental domestic support, remained at very high levels for many agricultural products. In fact, the major industrial countries were only required to make relatively minor changes to their domestic farm policies in order to conform to the Agreement.

It is these same compromises that now threaten to deny the international community a successful conclusion of the Doha Round of Multilateral Trade Negotiations.

Developing countries contribute a significant amount to world agricultural production and for many developing nations, agriculture also makes a major contribution to national incomes. However, in developed countries, the implementation of market-distorting measures enables resources to be diverted away from other sectors into agricultural production, thus increasing the world supply of commodities and depressing world prices. This use of export subsidies by the major developed countries adversely affects developing nations, particularly those which must depend on one or two commodities, by limiting the prices received for their agricultural products. This reduces both their potential income and the overall resources available to stimulate

economic growth. Cotton, produced in the United States under highly subsidized rates and exported at relatively low prices, is a case in point. The cotton-producing countries in Africa have been suffering severely as a result of this situation. This should not be allowed to continue.

Domestic support, export subsidies, and restrictions on market access are closely interrelated. Their use by both developed and large developing countries significantly distorts world agricultural trade, and makes it very difficult for the countries to abandon such policies. This is the major reason for the stalemate in the current multilateral trade negotiations in Geneva.

In the circumstances, the WTO General Council's Decision of 1st August 2004 on the Framework for Negotiations was indeed a landmark achievement. In the area of agriculture it explicitly recognizes the mandate set out in Paragraph 13 of the Doha Ministerial Declaration. The basic objective of that mandate is to establish a fair and market-oriented trading system through a programme of fundamental reform.

This fair trading system would be achieved through comprehensive negotiations which would lead to "substantial improvements in market access; reductions in, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade distorting domestic support". It was also recognized that agricultural reforms in all three pillars are interconnected and must be approached in a balanced and equitable manner. The Decision provides for special and differential treatment for developing countries. I will deal with this in more detail later.

The 2005 Ministerial Meeting held in Hong Kong, China, reaffirmed both the Doha provisions and the 2004 General Council Decision. It also pronounced on certain matters pertaining to agriculture, but failed to achieve any real breakthrough on the critical issues confronting the negotiations. In fact, it ended with some developed countries, especially the EU, leaving Hong Kong with the impression that they were pressured into agreeing to positions which were not entirely favourable to them. This kind of thinking can only result in distrust and reluctance on the part of some countries to engage meaningfully in on-going negotiations.

The current situation in the negotiations on agriculture clearly reflects some entrenched positions on the part of certain developed countries, with the more advanced developing countries insisting that the former respect the objectives of Doha and the basic commitments reflected in the General Council's Decision.

The recent written communication from the Chairman of the Committee on Agriculture is instructive. He cautions that if we do not get serious momentum over the next few weeks "we will either fail or we will put this whole exercise in the freezer for some considerable time until a better generation than us can thaw it out". This is the reality facing the negotiations today.

I shall now deal with the subject of special and differential treatment for developing countries. Both the Doha Ministerial Declaration and the WTO General Council's Decision speak to this matter. The latter specifically refers to the rural development, food security and/or livelihood needs of developing countries, and makes provision for catering to such.

Essentially, these countries are not required to make the same level of commitments as their developed counterparts in respect of market access, domestic support, and export subsidies. In addition, developing countries will have the flexibility to designate, “for more flexible treatment,” an appropriate number of products as Special Products, based on criteria of food, livelihood security, and rural development needs. A Special Safeguard Mechanism (SSM) is also to be established for use by developing countries.

Despite such explicit provisions, a number of developed countries have repeatedly questioned the granting of special and differential treatment and have sought to delay or even abandon tangible delivery of the concessions which it had been agreed should be extended to developing countries. At times, it appears that certain countries would wish to rewrite, not only the decisions which Ministers had taken at Doha, but also various sections of the 2004 General Council’s Decision. In some instances, they are attempting to place specific conditionalities on the developing countries. It is clear that if WTO members continue to deny developing countries the special and differential treatment to which they have a realistic expectation, there is little or no chance of a successful outcome to the so called “Doha development round”.

In the areas of non-agricultural market access and services, one is witnessing basically the same tactical approach by developed countries. They are insisting that developing countries, with the exception of the LDCs, make drastic and time-bound reductions in their customs tariffs in order to facilitate greater access to their markets for the exports of developed countries. These countries seem to ignore the fact that the

kind of market opening and reforms which they are pressing developing countries to undertake, has taken almost fifty years for developed countries to achieve, and, in some cases, they are still undertaking those reforms and trying to restrict access to their markets. It must be recognized that developing countries should have the policy space to balance trade liberalization with other initiatives in order to promote the sustainable development of their economies.

With respect to Services, some of our developed counterparts are demanding that all countries make substantial and wide-ranging market access offers. This is one of the areas in which developed countries realize that they have a major advantage and they want to capitalize on it. Regardless of the consequences for countries which are less advanced. Developed countries are taking this hard line approach with little or no regard for those provisions of the General Agreement on Services (GATS) that speak to special and differential treatment for developing countries.

They do not seem to appreciate that developing countries need to encourage indigenous investment in the services sector, and that there are certain services activities which they prefer to reserve for their own domestic services providers, within the context of the countries' development plans and priorities. Failure by developed countries to understand the real concerns of developing countries and to demonstrate a genuine willingness to take them on board in these negotiations will undermine the chances of a successful completion of the Doha Round of Multilateral Trade Negotiations. A Round, may I remind you, that is supposed to be a development Round.

The proliferation of free trade agreements forged between some developed and developing countries, especially involving the US and the EU, over the last three years, is also posing difficulty for multilateral trade negotiations. Certain developed countries are unreasonably extracting from some developing countries, within the bilateral context, what they have been finding it difficult to obtain in the multilateral trade negotiating arena. Powerful countries are using their economic strength and political influence to pressure weaker countries into unbalanced agreements. This makes the situation much more difficult for other developing countries within the multilateral setting to realize their genuine negotiating objectives.

Some WTO member countries are also using scare tactics to pressure countries, especially the developing ones, to move at an unrealistic pace or accept an unsatisfactory agreement. We constantly hear about the need to complete the negotiations within the timeframe of the Trade Promotion Authority granted by the US Congress to the President. We are being told that failure to do so could place the results of the negotiations in jeopardy, since the Congress might not be willing to accept carte blanc the final negotiated package. But it must be stressed that the US also has significant interest in the negotiations and this should be enough to motivate it to stay engaged and ensure a successful outcome. It is not in any country's long-term interest to negotiate an agreement that stands very little chance of being implemented. Since 1947 when this process started the US Congress has always granted TPA, if not sooner then later.

The Uruguay Round took eight (8) years to complete. There was a four year suspension or hiatus which ended when APEC showed that there was a possible alternative. Why do we believe that twenty (20) years later when there are more countries involved and more issues on the table, that a new 21st Century Round could be negotiated in less than eight (8) years.

I now turn to the negotiations that are being conducted between the European Union (EU) and the countries of the African, Caribbean, and Pacific (ACP) Group.

In accordance with Article 37.7 of the Cotonou Agreement, the negotiations are aimed at establishing a time-table for the progressive removal of barriers to trade between the two Parties, in accordance with WTO rules, and improving current market access for the ACP countries. The negotiations are also to take account of the level of development and the socio-economic impact of trade measures on ACP countries, and their capacity to adapt and adjust their economies to the liberalization process.

It was agreed that the negotiations shall be as flexible as possible in establishing the duration of a sufficient transitional period, determining the final product coverage, taking into account sensitive sectors, and generally adopting an asymmetrical approach to tariff dismantlement and to all other aspects of the negotiations. Account is also to be taken of the regional integration processes of the ACP countries.

In accordance with the procedures outlined in Article 37.1 of Cotonou and agreed in the various regional negotiating schedules, the EPA negotiations are in their final year. Progress in the negotiations has been

very uneven across the ACP, with some regions reporting solid, if unspectacular progress, whereas others have been experiencing major difficulties.

This morning, rather than reviewing every aspect of the EPA negotiations, I will limit my remarks to a brief look at some of the issues which have not yet been resolved. However, before proceeding, I wish to observe that the negotiations are being conducted in a positive atmosphere at all levels and that we can point to some areas of convergence, notably with respect to the scope and structure of the agreements, the need for asymmetry, transition periods, treatment of SPS and TBT issues, and the establishment of EPA Councils to oversee implementation of the agreements. Some areas of divergence include:

- *Different approaches to the issue of development and how best to address it in an EPA:*

One common thread running through all of the regional negotiations has been the issue of “development,” and how to ensure that EPAs really are designed and implemented to bring about development in ACP countries.

What do we mean by a development-oriented EPA? In the ACP, our vision is not limited to trade liberalization or a more rigid application of trade rules or accelerated regional integration or even all three of the foregoing. From the ACP perspective, development should infuse all facets of an EPA. Addressing our supply-side constraints, improving the competitiveness of our economic operators, shifting trade specialization towards higher value-added goods and services are among the initiatives which ACP countries see as comprising the developmental aspects of

EPAs. The EU seems to have a narrower view, revolving around strengthened regional integration and improved market access.

The traditional ACP-EU cooperation arrangements and volume of EU economic assistance will not suffice, given the requirements for successful EPA implementation. Therefore, the parties need to reach agreement on a greatly enhanced package of development support, together with more effective and innovative delivery mechanisms.

- *The future treatment of certain vital commodity protocols under the current Cotonou Agreement is a major area of concern for ACP states:*

For the Caribbean, rum, sugar and bananas are cases in point.

Many ACP countries hope that the EPAs will help to promote sustainable development, by changing our relationship with the EU from one of dependency on preferences to a mature partnership that would help to build regional markets, create a better environment for business, and improve market access for ACP goods and services. However, challenges by other WTO members to the EU sugar and banana arrangements, together with a too rapid reorganization of the EU market for these two commodities, is having a negative impact on our ability to structure a sufficiently seamless transition period.

- *The scope of regional integration processes and the extent to which collective commitments can be assumed, given the realities of the economic integration efforts in the respective regions:*

The level of ambition with respect to the pace and scope of regional processes in the ACP is an area of long-standing divergence between the EC and the ACP in all of the regional EPA negotiations. Although both

sides concur that one of the key objectives of an EPA is to strengthen the regional integration processes in the ACP, there continues to be significant differences as to how and at what speed this should be undertaken.

The existence or creation of a Customs Union has been the starting point for the Commission throughout the regional phase of the negotiations and although EC negotiators have stepped-back recently from that extreme position, ACP regions have been obliged to battle against the Commission's persistent attempts to push regions to accept common commitments.

For example, there is the question as to whether all countries in the Caribbean should proceed from one common starting point, irrespective of their actual level of involvement in the regional integration exercise, or their existing obligations under other extra-regional trade and economic agreements.

Furthermore, in the Caribbean we consider the development dimension of any EPA with the EU as critical to our own regional efforts at economic integration. The Region is currently engaged in an exercise that is intended to fundamentally transform the regional economy. I am referring to the efforts at establishing the Caribbean Single Market and Economy (CSME). The Single Market is in the process of implementation, while the Single Economy is expected to come on stream next year. The challenge which the Caribbean faces cannot be underestimated. The goal is regional economic development. It is in this context that the Region eagerly looks forward to a real and sustained

economic partnership with the EU of which development is the ultimate objective.

- ***The degree to which the vital services sector in ACP countries should be liberalized in the context of the EPA:***

Some ACP countries are circumspect about negotiating a chapter on Services in the EPA because they wish to ensure that any such negotiations take fully into consideration the need for indigenous investment in certain services activities of these countries. The services negotiations started rather later than the other aspects and we remain hopeful that an agreement, which is in keeping with the Cotonou commitment to strengthen the capacity of ACP countries to supply services internationally, can be reached within the next few months.

- ***The sequencing of trade related assistance and market access commitments:***

The level of technical and financial assistance that would be made available to ACP countries to permit them to develop a real and sustained capacity to benefit from the EPA remains an area of concern. We are dealing with two unequal partners, parties with vastly different resource endowments and size of economies. In such circumstances, fairness and equity can only be achieved if positive steps are taken to help redress the existing imbalance.

Let us recall the precept that among equals there should be equality and among unequals proportionality. ACP countries need to be assured that they can count on the EU to help them build institutional, technical and industrial capacity in order to take advantage of the new arrangements to be put in place.

It is now generally accepted that one of the major challenges facing ACP countries, in their efforts to achieve sustainable development, is the need to overcome the supply-side constraints which have been impeding their ability to produce efficiently and to take advantage of the trade opportunities emerging from the Cotonou Agreement and other market access opportunities.

In this regard, the need for the EU to provide sufficient assistance to enable ACP countries to overcome these difficulties is a key ACP concern in the EPA negotiations. The EU Member states also recognize that there must be additional EU support to address ACP supply-side issues. The challenge facing the two sides is to agree on the most effective mechanism for delivering the necessary support in a timely manner.

The logical sequencing of the EPA implementation underlines the need for supply-side constraints and trade capacity shortcomings to be addressed before the ACP regions undertake any further trade liberalization. This logic would also lead to the conclusion that ACP regions should not be asked to make binding commitments in those areas where they have inadequate or, in some cases, no capacity to discharge such obligations.

In the Caribbean, we have decided to pursue an EPA negotiating strategy of balancing regional trade objectives with EU development co-operation commitments, combining liberalization with support measures in areas such as trade capacity building, development, regulatory reform, fiscal adjustment and competitiveness improvement.

The rate at which ACP market opening will be undertaken and the basis for Tariff Liberalisation represent challenges still to be resolved:

The market access issues are some of the most difficult in the EPA negotiations and all regions are struggling to make meaningful progress. The CARIFORUM-EC negotiations may be used as an example where some progress has been made, but significant divergences remain in many critical areas.

As the negotiations have progressed, there is a convergence of views on a lengthy transition period for some products; development cooperation support to strengthen the region's capacity to satisfy the EU's SPS and TBT requirements; and on an overall asymmetrical approach to the negotiations. In addition, the EU offer last month of duty and quota free access to the EU market, in the context of the EPA negotiations, for all ACP products - a phase-in period has been proposed for rice and sugar – presents a new focus for the market access negotiations.

Nevertheless, there continues to be considerable difficulty in reaching an agreement with the EC in terms of an approach to take into consideration CARIFORUM's multi-faceted economic space. Therefore, the construction of tariff schedules and compilation of exclusions lists continue to divide the two sides.

- ***Implications of not completing the negotiations before the end of 2007:***

In the event that the EPA negotiations cannot be concluded within the prescribed timeframe, one possible solution would be to seek an extension of the current WTO waiver. The GATT Article 1 waiver

covering the Cotonou trading arrangements terminates on 31 December 2007 with the expectation that the new EPAs would take effect from January 1, 2008.

In the absence of a new trading arrangement, a legal void would be created on 1 January, 2008 because the waiver granted would have expired. This situation would be prejudicial to the interests of ACP exporters and investors who would find themselves operating in an uncertain environment. ACP preferential access arrangements would be unprotected in the WTO, and thus subject to challenge. Key commodity exports to Europe including sugar, rum, bananas, rice, and beef, could suffer even greater damage than has already been the case.

If another waiver were requested, it is not clear what conditionalities would be attached and what impact they might have on ACP countries. Furthermore, there is no certainty that the EU would be prepared to place itself in such a situation on this occasion. Commission officials have said repeatedly that there is no EU interest in seeking an extension of the current waiver.

Conclusion

Although there are difficulties in some key areas, most notably with respect to the pace and scope of the regional integration processes across the ACP, the realization of the development dimension of the EPAs, and the structuring of market access for goods, both the ACP and the EU are making an effort to complete the negotiations on time. In the case of the ACP, the clear assumption underlining this approach is that their interests will be satisfactorily addressed in the negotiations during the coming months. Failure to make meaningful progress in the areas mentioned

above would raise serious doubts about the likelihood of EPAs coming into effect on 1st January 2008.

In their thirty-three years of development cooperation since the first Lome Convention, the ACP States and the EU have always been able to find common ground on difficult issues. This history of success leads me to be cautiously optimistic that we will find a mutually agreeable solution to what now seems to be an impossible challenge.

I however do not share this same level of optimism for the successful conclusion of the Doha Development Round by the end of this year.

Ladies, and Gentlemen, I thank you.